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SUBJECT: MINISTER OF FINANCE DISCUSSES HOLD-UP IN GOVERNMENT FUNDS
FOR KEY SERVICES AND HIS HOPE TO REACH HIPC COMPLETION POINT BY THE
LONDON CONFERENCE

REF: KABUL 4137

¶1. (SBU) Summary: On December 16, Coordinating Director for Development and Economic Affairs (CDDEA) E. Anthony Wayne met with Afghan Minister of Finance, Omar Zakhilwal, to discuss why GIROA has been slow to release funds for a variety of important services, including prison guards' wages and fuel for electricity generators in Kandahar. According to Minister Zakhilwal, the issue has been Parliament's refusal to pass the 1388 (current) midyear budget supplement, due to a set of 18 concerns which the Minister called "trivial." (Update: Minister Zakhilwal responded this week with an issue-by-issue response to each of Parliament's 18 concerns. However, passage of the midyear budget supplement remains unlikely for at least another week, as Parliament is currently questioning Cabinet nominees in plenary. He subsequently authorized use of \$1 million to keep electricity flowing in Kandahar after urgent pleas from local authorities, us and President Karzai.) In the meeting, Minister Zakhilwal also discussed the London Conference, noting his satisfaction with the current agenda and stressing his desire to conduct the HIPC Completion review before the Conference. End Summary.

DELAY IN MIDYEAR BUDGET LEADS TO
LACK OF FUNDS FOR KEY SERVICES

¶2. (SBU) Ambassador Wayne noted concerns from Kandahar that the Kandahar diesel generator plant operated by Da Afghanistan Breshna Sherkat (DABS) could not buy fuel due to a lack of funds and that electricity shortages were already hitting the major southern city. Lack of funding has also left the Ministry of Finance of the Government of the Islamic Republic of Afghanistan (GIROA) unable to release funds for the salaries of many Afghan prison guards for several months. Minister Zakhilwal explained that both issues were the result of Parliament's delay in approving this year's (1388) mid-year budget supplement, which contains the allocated funds for DABS' fuel purchase and for prison guards' wages. (Note: According to the Afghan solar year calendar, the current year, 1388, runs from March 21st 2009 through March 20th 2010.)

¶3. (SBU) The Minister explained that parliament has delayed passage of the midyear budget supplement due 18 concerns with the document, each of which Zakhilwal considers "trivial." They include concerns about municipalities awarding building contracts without prior Parliament approval (contra to the Procurement Law); the establishment of several ANP security units (one for highways and one for the Aynak Copper Mine) without prior Parliament approval; dissatisfaction with an AFS79 million wheat procurement contract; and concern about whether specific expenditures should be located on the development or operational budget. (UPDATE: This week, Minister Zakhilwal sent a document to Parliament responding issue-by-issue to each of Parliament's 18 concerns. Parliament is expected to review the document once the cabinet nominee questions are complete, possibly early mid-January (reftel). In the interim, responding to

requests from President Karzai, local authorities and us, Zakhilwal ordered the Budget Department at the Ministry of Finance (MOF) to reallocate \$1 million from other discretionary spending to the fuel subsidy. However, this is only a short-term solution as daily Kandahar electricity operations consume approximately 100,000 liters of diesel fuel, which costs about \$100,000. A similar interim plan for paying prison guards does not yet exist.)

MINISTER SEEKS HIPC COMPLETION REVIEW IN JANUARY

13. (SBU) Ambassador Wayne and Minister Zakhilwal also discussed the process necessary for GIROA to satisfy the mining regulations trigger needed to reach HIPC (Highly Indebted Poor Countries) completion. (Note: Reaching the HIPC completion point would provide GIROA with approximately \$1 billion in debt relief. GIROA has made substantial progress on all of the triggers. However, the World Bank still needs to sign off on new mining regulations for GIROA to satisfy the Mining Trigger (which requires that GIROA implement more stringent mineral and hydrocarbon regulations). The new regulations were only given to the World Bank for review in early December.)

14. (SBU) Zakhilwal urged Ambassador Wayne to encourage World Bank staff to review the mining regulations quickly enough to allow a HIPC completion point review to take place in January, before the London Conference. According to Zakhilwal, doing the HIPC review in January will add to a "spirit of reform" entering into the London Conference and show the incoming cabinet that there is a reward for taking tough actions.

15. (SBU) NOTE: The Mission has followed up with World Bank Staff on the feasibility of reviewing the mining regulations within such a

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short period of time. World Bank staff has responded that they will likely be able to circulate HIPC documents prior to January 28, which means that review of HIPC Completion might be possible before the London Conference. We are consulting with World Bank staff on the feasibility of this time line and urge Washington agencies to support this schedule. End Note.

16. (SBU) Ambassador Wayne also followed up on Minister Zakhilwal's recent request that the USG provide him with information pertaining to recent allegations against the Minister of Mines. Based on an assessment provided by embassy elements, Ambassador Wayne noted that the Mission did not have any specific, actionable information against the Minister of Mines.

MINISTER SATISFIED WITH LONDON CONFERENCE AGENDA

17. (SBU) Minister Zakhilwal expressed satisfaction with his recent conversations with the British State Secretary for DFID on the agenda for the upcoming London Conference. Zakhilwal is working closely with the British to design the economic components of the agenda. He said both sides are in agreement that the London Conference should focus on the "what" or broad goals of reform, while the Kabul Conference in March focuses on the "how" of reform, that is, the specific benchmarks to implement these goals.

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